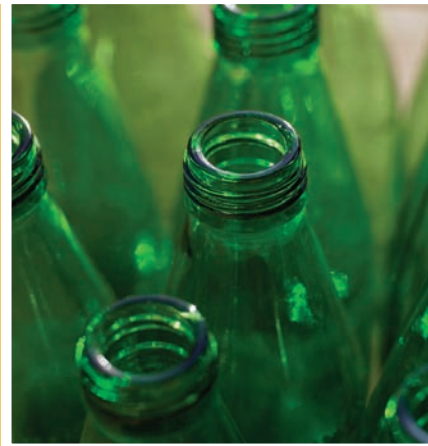


A CGT WHITE PAPER



Harnessing New Product Innovation's Power to Build Brands and Drive Organic Growth



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Untold billions of dollars are spent annually by consumer goods companies to develop marketable brand preferences that will entice consumers. The benefits of new products and line extensions have become the financial justification for spending that capital on building brand equity. Yet despite these investments, brand erosion has become the norm, with consumers far less “brand loyal” than ever before. Additionally, private label and competitive products have taken a huge step in recent years, offering consumers viable, quality alternatives at lower cost. As such, it becomes paramount for leading consumer products companies to develop unique new products and line extensions much more quickly, efficiently and cost-effectively, all the while protecting their intellectual property (IP). New product innovation, therefore, becomes an increasingly important focus.

“Most enterprise application investments (in recent years) have been in (systems) like ERP, which have done good things, like reducing cost and inventory. They have even helped in streamlining business processes. But these projects have not been implemented with the express purpose of driving organic

growth. Organic growth is most strongly influenced by innovative new products. So the innovation process is what we need to address,” says Dan Staresinic, Global Practice Director, Consumer Products for UGS.

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AMR Research estimates that a new product can command as much as a 30% price premium until a competitive offering is introduced. Additionally, it is important to note that these price premiums mean higher margins and reduced promotional incentives. Yet new product success rates (measured in terms of meeting CG companies’ financial targets) remain dis-

couagingly low, at around 20% industry-wide. Managing the product lifecycle more effectively is paramount to achieving desired product performance levels and continuously building brand equity.

According to AMR Research’s “U.S. Enterprise IT Spending Profile: 2006-2007,” speeding new products to market is the primary competitive concern for CG companies, yet “supporting the innovation process ranked twelfth in IT investment,” close to the bottom of the priority list. This disconnect, notes author Michael Burkett, suggests that manufacturers need to “back up and revisit the fundamentals.”

Further, many of these failures stem from CG companies’ difficulties managing two main elements of new product introductions: development and execution. CG companies must coordinate new product development with actual execution: the multiple technical and logistical elements needed to manufacture products consistently, cost-effectively and with high quality. And all with the consumer constantly at top-of-mind.

Re-tooling the product development process and creating Global Innovation Networks offers tremendous

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— MIKE FRIEDMAN, PRINCIPAL IN INNOVATION, KALYPSO CONSULTING GROUP

promise toward bringing better-performing products into the marketplace. Fortunately, with new Product Lifecycle Management (PLM) software, standardized, easy-to-use platforms and real change management, there is a brave new world out there that can foster innovation in a manner never before possible. The possibilities derived from such a distributed innovation process are truly exciting.

Collaboration (and Communication) Hurdles

Most CG companies have numerous product development teams spread across the country and even the globe. Many also employ business partners and other

groups outside the corporate structure as part of their value chains. At any one time, several groups may be working on similar ideas, without knowing what's going on somewhere else. This inability to share information and ideas means not only that there is repetitious and costly work going on, but also that there are many missed opportunities to brainstorm, share and build on ideas.

Don Richardson, Director, Global Innovation Management and PLM Industry Strategy at Microsoft Corp., notes that "Collaboration is increasingly critical in addressing the need to reduce the product development and innovation lifecycle." He further adds that the constraints created by differences in languages, cultures, systems, time zones and work processes make global collaboration difficult.

Mike Friedman, Principal in Innovation for consulting group Kalypso and a 29-year Procter & Gamble veteran, says, "The paradox is how to deliver 'both/and' versus 'either/or.' For example, how do you deliver low cost and value discipline while still fostering creativity? As organizations get bigger and more complex, another example is the ability to deliver global scale while still maintaining local focus. And they need to do it in a way that's flexible and fast."

In exploring the ideation part of the new product development process, it is important to note that how this is practiced has repercussions on future idea collection and innovation behavior. The old adage "two heads are better than one" should be applied here, and frequently is not. Without a way of sharing individual inspirations and serendipitous ideas from individuals, great opportunities may very well be squandered.

Owning the Process in a Complex Environment

One of the biggest problems facing manufacturers, even when they rank the innovation process as a top priority, is the fact that often the cross-functional nature of that process means a lack of ownership. This lack of strategic and financial control, notes AMR's Burkett, is changing, with many companies assigning owners of innovation. These "owners" are charged with putting structure around the process, while still being extremely careful about the danger of stifling creativity.

In a February 1, 2007 article in *Information Week*, Kevin Dehoff of Booz Allen stated that "high levels of cross-functional integration and collaboration—especially among groups that deal with customers such as sales, marketing and customer service," need to be part of the product innovation process and must be considered in platform design.

Friedman says highly integrated teams, including members of the value chain, are needed. But, he emphasizes, creating a core team with cross-functional members is the beginning step. "Your portfolio of initiatives should evolve over time, delivering the company's purpose and business."

Jim Brown, Vice President and Service Director, Global Product Innovation and Engineering Research for consultants AberdeenGroup, Inc., notes in Aberdeen's September 2005 "Product Innovation Agenda Benchmark Report," that there are many different forms of collaboration across the product lifecycle. "These include design collaboration, value chain collaboration, project collaboration, real-time/meeting collaboration and 3D publishing and repurposing of CAD models."

Brown lays it on the line: "Innovation impacts *both* top-line and bottom-line growth significantly." That means that innovation ownership should flow from the top echelons. "Looking at just top-line growth means you are sub-optimizing the innovation process."

Protecting and Building the Brand

"Brand equity" is a catchall phrase frequently bandied about to describe the value of a group of consumer products and how the consumer responds to marketing tactics and the products themselves. Brand equity is a corporate-wide agenda in and of itself, thus it is paramount that CG companies embed brand delivery capabilities into their innovation strategies and tactics.

Branding is the most cross-functional of all elements in the innovation process. However, since it is most often the bailiwick of the company's marketing organization, there is often a huge disconnect with the technical ends of the business. "It's like a lobotomy," says Staresinic. He points out that the "articulated and unarticulated needs of the consumer" need to be part of the innovation equation. "Brand equity needs to

flow from the creative side to the executional side.” CG companies must “implement the brand effectively every time” when bringing new products to the marketplace. “Brand equity transfer has to happen.”

Forrester Research, in its “Organic Branding” report of December 2006, agrees with that assessment. The study concludes that the changing ways in which consumers learn about products (through the

Internet, the blogosphere, social networking, etc.) has had a tremendous impact on how consumers react to products. As such, it becomes incumbent on the CG company to make sure that branding is authentic, sincere, and possesses integrity. For product innovation teams, this means that this type of non-structured and continuous data must become part of the marketing profile early on in the developmental process.

Protecting IP: Key to Future Competitiveness

One of the more significant challenges facing CG companies today, and one that is likely to increase in the future, is protecting their intellectual property (IP). It is the IP that is the differentiating factor, the singular essential without which there are no new products to develop. Kalypso consulting group's Mike Friedman notes that IP helps to sustain competitive advantage, driving innovation.

Innovation means easing the pathway to sharing, which also means opening the process up to more risk of leaking or losing IP. The continued globalization and needed inclusion of partners outside the company adds to that risk.

Additionally, many of the faster-growing global markets, such as China, do not subscribe to the same conventions for protecting intellectual property as other countries. “At a minimum, the impact is on developing legal protections for patents across multiple countries and languages. At the extreme, the impact is cultural disregard for IP rights and inability to gain reasonable recourse for IP violations,” reports The AberdeenGroup in its November 2006 “Protecting Product Intellectual Property Benchmark Report.”

The Aberdeen report further states, “The threat to product IP is real and tangible.” As a consequence, CG companies are adopting multi-faceted protection strategies, including:

- Legal strategies to protect IP from being copied by others, as well as protecting against infringement claims from competition.
- Business processes that optimize the amount of product information shared with partners, by balancing increased innovation and decreased time to market with the associated IP risk.
- Technology solutions to protect product information within the firewall and IP shared outside of the firewall with partners.

“Our benchmarking shows that over 50% of companies are marketing, selling, procuring, designing and sourcing in multiple countries on some level. Sharing is very important,” says Jim Brown, Vice President and Service Director, Global Product Innovation and Engineering Research, AberdeenGroup. You need to share “corporate knowledge and know-how in an IP-friendly collaboration. The conundrum is to innovate faster, better, cheaper, while protection means sharing less. What is the balance?”



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Phase and Gate Practices

The list of responsibilities in a product launch is long: appropriate marketing support, sales data, training and a host of other elements—all necessary even before beginning the actual product development. Industry experts agree that the most effective process is one of Phases and Gates. “At the end of each phase, before proceeding to the next is a gate or decision-making point. There should be only one of two possible outcomes at each gate, a Go or a Kill decision,” explains Richardson. “For example, a development team may have what they believe to be an exceptional product, but it is unsupported by the market data, and even if a Go decision is made, the management team may decide after review to put the project on hold.”

Staresinic adds, “The phase and gate process allows a company to document and enforce best practices through the entire process, from idea to market. Ideas are cheap. But when you move from ideation through the phase and gate process, each step becomes more expensive.” By implementing PLM in conjunction with this more structured approach to decision-making, innovation is better controlled.

Virtual prototyping, testing, test marketing and capital equipment expenditures are further examples of phases within the innovation structure that become increasingly expensive steps, he adds.

Data must be complete, synchronized and accurate in order to accomplish goals—not an easy task. “Teams don’t exist in a vacuum. How do you bring in the voice of the consumer?” Friedman asks. Throughout the innovation process the team must always keep in mind that they are developing products whose purpose is to “delight the consumer.”

Portfolio Management

Creating the ability to manage products and process investments on a systematic and repeatable basis is key for companies with successful innovation programs. “They understand investments need to be carefully planned, managed and coordinated with due diligence and a strategic eye to company goals,” says Staresinic.

While this need may seem perfectly obvious, in many real-world cases a lack of oversight, limited customer insight, communication difficulties and

lack of specific focus make it difficult to accomplish. “Worse,” Staresinic continues, “a company can be executing on a portfolio that exceeds financial and resource constraints.”

Portfolio Management aids in maximizing investment returns by governing the selection of the correct mix of investments. It provides organizations with the ability to ensure investment decisions align with company innovation strategy, the right resources and sufficient budgets to deliver on stated goals. Additionally, by connecting the company's strategic portfolio plan to the pipeline of new product development, portfolio management ensures that day-to-day activities are kept in line with those goals, while also measuring progress. Simply put, portfolio management provides decision-making information that allows companies to focus on what are likely to be big winners, and to adopt a “kill early and often” strategy on projects that show a poor likelihood of being successful.

As Forrest Gump said, “If you don't know where you're going, you probably won't wind up there.”

More Constraints to Ideation

Ideally, innovative breakthroughs need to be free of constraints in the idea inception phase. However, constraints often define ideas and their development. And those constraints are often defined as corporate goals. Frequently included in this laundry list of requirements are:

- Increasing yield on product and process innovation
- Compressing time to market
- Addressing dynamic business demands and regulatory requirements while reducing costs
- Optimizing resources to increase efficiency
- Maximizing the advantages of globalization

Additionally, meeting regulatory demands and compliance is essential.

Solutions

Platform commonization, along with phase and gate practices, are the linchpins for making innovation collaboration effective. Microsoft and UGS have teamed together to develop robust, easy-to-use and easy-to-implement solutions that cross over functional and global boundaries.

In environments with so many users possessing varying degrees of technical know-how, some of whom use software unique to their areas of expertise such as CAD design and modeling, a simplified infrastructure is virtually mandatory. By utilizing Microsoft SharePoint® with the ubiquitous Microsoft Office Suite, a commonized, simplified yet robust infrastructure can be established. SharePoint capabilities include:

- Portals
- Enterprise Search
- Enterprise/Content Management
- Business Process and Forms
- Business Intelligence

“It is difficult to build the appropriate collaboration infrastructure so that it supports the needs of all users from the various disciplines with little or no training requirements,” notes Microsoft's Richardson.

“For example, the design process should ideally require strong collaboration well before the CAD design begins. The overall innovation process requires inputs from people in sales, marketing, engineering and manufacturing, which creates the need for managing this process,” he adds. “We often see customers use Excel to represent market data or develop scientific formulas. PowerPoint is used to present concepts to management and Word is commonly used for all kinds of communications. The blending of CAD and non-CAD data is paramount

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for an extensive collaborative process. We see our role at Microsoft as providing customers an end to end collaborative infrastructure that meets their requirement to easily manage structured and unstructured documents on both the design and non-design side of the innovation process.”

UGS’ Staresinic adds, “Innovation is a big process with many players and many activities occurring in parallel and in sequence. A strong collaborative platform is a requirement and that platform must rest on a single source of ‘truth’: the product and process data model. Data modeling capability is the foundation. With all players able to share in the same data, we have an unprecedented ability to accelerate innovation by reducing ambiguity and rework.”

Organizations need to find the right balance between collaboration and security. “Collaborative development efforts typically involve a variety of unstructured documents, many of which are created informally,” says Richardson. “A new idea, for example, could become valuable intellectual property, and once the knowledge is captured an organization must gain control of all related documentation for compliance and governance purposes. Sharing information with innumerable people and companies across global borders means that you must be methodical in record-keeping and storage. The right people need to have control and access to information, but in order to innovate an organization has to be careful not to lock everyone into an overly rigid process.”

Building upon this platform, UGS’ Teamcenter PLM solution acts as a delivery system, opening the path for distributed communications in ways that were never before possible. Because Teamcenter is web-based, the ability to “spread” across global and func-

tional borders is simplified, creating the ability to work within a virtual environment.

Advantages of PLM in the Innovation Process

Staresinic points out that PLM is about choreographing brand development. “We do that by enabling everyone to enjoy a common knowledge base, orchestrating business processes as you go from idea to execution to in-market management of that product. The key is to enable collaboration between all functions, stakeholders, inside and outside the organization, across time zones. That gets product to market faster with fewer mistakes, as consistently as possible.”

The Future “Bottom Line”

It is clear that the next bastion of organic growth for competitive CG companies is re-inventing their innovation processes. By creating a rich environment with accessible, complete, accurate and easy-to-use information from a Global Innovation Network, ideation itself can be the newest innovation.

Being faster to market with great new products that delight consumers and comply with market and performance needs, while collaborating globally, is a winning combination—one that will evolve worthy product line extensions. Rewards come to those who practice joined ideation and development, which will be reflected in their brand strength and top- and bottom-line growth. ■

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About UGS

UGS' vision is to enable a world where organizations and their partners collaborate through Global Innovation Networks to deliver world-class products and services, allowing them to deal swiftly with emerging risks and opportunities. UGS powers innovation and productivity by connecting people and processes with knowledge. UGS enables excellence throughout the lifecycle to include companies' strategic business initiatives, new product development and introduction (NPDI); global product development; global manufacturing; maintenance, repair and overhaul (MRO); strategic sourcing and regulatory compliance.

To learn more about Innovation and Delivering the Brand, visit http://www.ugs.com/industries/consumer_products/

About Microsoft

In the changing global market, most often people, not systems, resolve supply chain variability. They face demand for faster response, increased productivity, and competitive pressure to exceed customer expectations in a complex global supply chain.

Through our People-Ready Business solutions and vast partner ecosystem, Microsoft strives to help people innovate faster, streamline operations, and enable a seamless, synchronized and more secure collaborative supply network while increasing revenue, reducing cost and liberating working capital.

For more information visit <http://www.microsoft.com/consumergoods>

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